San Diego - Imperial Counties Developmental Services, Inc.

Financial Statements

June 30, 2022

WINDES
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Opinion

We have audited the accompanying financial statements of San Diego – Imperial Counties Developmental Services, Inc., a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Regional Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Regional Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Regional Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Regional Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2024, on our consideration of the Regional Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Regional Center's internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
March 12, 2024

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

ASSETS		
Cash and cash equivalents	$	42,642,154
Cash and cash equivalents - client trust funds		3,602,629
Receivables - State Regional Center contracts		11,690,055
Receivables - Intermediate Care Facility providers		4,244,574
Other receivables, prepaids, and other assets		1,325,127
Due from state - accrued vacation and other employee benefits		33,586,358
Due from state - deferred rent		1,945,826
TOTAL ASSETS	$	99,036,723

LIABILITIES AND NET DEFICIT

LIABILITIES		
Accounts payable and accrued expenses	$	57,338,661
Accrued payroll and vacation		3,638,984
Deferred rent		1,945,826
Pension plan obligation		53,455,447
Unexpended client support		3,475,932
		119,854,850
COMMITMENTS AND CONTINGENCIES (Notes 5, 6 and 7)		
NET DEFICIT		
Without donor restrictions		(20,818,127)
TOTAL LIABILITIES AND NET DEFICIT	$	99,036,723

The accompanying notes are an integral part of these financial statements.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS	
REVENUE AND SUPPORT	
Contracts - state of California	$ 575,187,562
Intermediate Care Facility supplemental services income	10,052,667
Other income	581,768
TOTAL REVENUE AND SUPPORT	585,821,997
EXPENSES	
Program Services:	
Direct consumer services	560,165,312
Supporting Services:	
General and administrative	26,394,764
Total Expenses	586,560,076
CHANGE IN NET DEFICIT BEFORE PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(738,079)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COSTS	33,378,808
CHANGE IN NET DEFICIT	32,640,729
NET DEFICIT, BEGINNING OF YEAR	(53,458,856)
NET DEFICIT, END OF YEAR	$ (20,818,127)

The accompanying notes are an integral part of these financial statements.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Supporting Services	
	Direct Client Services	**General and Administrative**	**Total**
Salaries	$ 36,597,111	$ 5,772,856	$ 42,369,967
Employee health and retirement benefits	12,144,704	1,915,715	14,060,419
Payroll taxes	542,800	85,622	628,422
Total Salaries and Related Expenses	49,284,615	7,774,193	57,058,808
Purchase of services			
Residential care	179,951,228	-	179,951,228
Day care and training	145,436,611	-	145,436,611
Medical programs	9,729,884	-	9,729,884
Respite service	56,235,976	-	56,235,976
Independent living costs	30,170,772	-	30,170,772
Transportation services	16,730,023	-	16,730,023
Prevention services	14,276,021	-	14,276,021
Other purchased services	58,222,769	-	58,222,769
Facility rent	-	7,488,430	7,488,430
General expenses	-	3,093,120	3,093,120
Facility maintenance	-	2,316,966	2,316,966
Equipment purchases, rental, and maintenance	-	1,143,266	1,143,266
Outside services	-	800,072	800,072
Public information and education	-	1,532,962	1,532,962
Telephone	-	761,274	761,274
Legal fees	-	460,197	460,197
Postage	-	34,702	34,702
Insurance	-	670,121	670,121
Utilities	-	140,412	140,412
Travel	127,413	14,082	141,495
Staff training	-	12,159	12,159
Accounting fees	-	23,200	23,200
ARCA dues	-	107,363	107,363
Printing	-	18,154	18,154
Board of Directors' expenses	-	4,091	4,091
TOTAL EXPENSES	$ 560,165,312	$ 26,394,764	$ 586,560,076

The accompanying notes are an integral part of these financial statements.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net deficit	$ 32,640,729
Adjustments to reconcile change in net deficit	
to net cash from operating activities:	
(Increase) decrease in:	
Receivables - State Regional Center contracts	10,314,566
Receivables - Intermediate Care Facility providers	179,518
Other receivables, prepaids, and other assets	702,980
Due from state - accrued vacation and other employee benefits	34,384
Due from state - deferred rent	(840,786)
Increase (decrease) in:	
Accounts payable and accrued expenses	7,887,160
Accrued payroll and vacation	606,740
Deferred rent	840,786
Pension plan obligation	(33,636,391)
Unexpended client support	(2,019,353)
Net Cash Provided By Operating Activities	16,710,333
NET CHANGE IN CASH	16,710,333
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,534,450
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 46,244,783
COMPONENTS OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	$ 42,642,154
Cash and cash equivalents - client trust funds	3,602,629
Total cash and cash equivalents	$ 46,244,783

The accompanying notes are an integral part of these financial statements.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – Summary of Significant Accounting Policies

Nature of Activities

San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) is a nonprofit public benefit corporation, the primary purpose of which is to contract with the State of California Department of Developmental Services (the DDS) and other governmental agencies to operate a regional center for persons with developmental disabilities and their families. The Regional Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. Contracts with the state and other agencies are generally renewed on an annual basis and provide a limit on expenditures and the respective contract funding. The period of expenditure reimbursement may, in some cases, extend beyond one year. Required services provided include outreach, diagnosis, assessment, counseling, prevention services, public information and education, and advocacy to persons with developmental disabilities and their families residing in San Diego and Imperial Counties.

The Act includes governance provisions regarding the composition of the Regional Center's board of directors. The Act states that the board of directors shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, composed of persons representing the various categories of providers from which the Regional Center purchases client services, shall serve as a member of the Regional Center's board of directors. To comply with the Act, the Regional Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Regional Center and a client service provider of the Regional Center.

The Regional Center contracts with DDS to operate a regional center for the developmentally disabled and their families. Under the terms of these contracts, funded expenditures are not to exceed $648,801,761 for the 2021-2022 contract year. Amounts received from the DDS contracts are recognized as revenue when the Regional Center has incurred qualifying operational expenditures per the DDS contract. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are included as contract receivable-state of California on the statement of financial position.

As June 30, 2022, actual net expenditures were $555,255,544 under the 2021-2022 contract. The remaining amounts on the 2021-2022 contract year where the Regional Center can be reimbursed for qualifying expenditures are approximately $93,546,000, subject to any future budget amendments.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Nature of Activities (Continued)

As discussed above, the Regional Center operates under contracts with the DDS. Contract revenue is funded on a cost-reimbursement basis. The net deficit reported as of June 30, 2022 on the statement of financial position is primarily the result of the Regional Center's defined benefit pension plan. As further discussed in Note 6, an accounting standard requires the Regional Center to recognize as a charge to net assets the actuarial losses and prior service cost, which had not yet been recognized as components of periodic benefit costs, which amounted to $21,636,149 as of June 30, 2022. For purposes of reporting periodic benefit costs, the unrecognized actuarial losses and prior service costs will continue to be amortized into plan expenses over future years. Periodic benefit costs under the defined benefit pension plan are reimbursed under the DDS contract as the Regional Center funds the plan. Although the Regional Center expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by the DDS.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly, revenue is recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Principal areas requiring the use of estimates include the allocation of expenses on the statement of functional expenses and the assumptions underlying the determination of the defined benefit pension plan amounts. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Regional Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-For Profit Entities*. Under FASB ASC Topic 958, the Regional Center is required to report information regarding its financial position and activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

> **Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
>
> **Net Assets With Donor Restrictions** – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All other donor-imposed contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

As of June 30, 2022, the Regional Center had no net assets with donor restrictions.

Fund Accounting

The accounts of the Regional Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statement of cash flows, the Regional Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

At June 30, 2022 and throughout the year, the Regional Center has maintained cash balances with one of its financial institutions in excess of federally insured limits. The Regional Center has not experienced any losses and management believes it is not exposed to any significant credit risk on such accounts.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivable - State Regional Center Contracts

Contracts receivable from state and federal agencies and contract support are recorded on the accrual method as related expenses are incurred. Contracts receivable represent amounts due from the state for reimbursement of expenditures made by the Regional Center under the annual regional center contract. Advances represent cash advances received by the Regional Center under the annual regional center contract. Contracts receivable are offset by cash advances received on the statement of financial position as management believes there exists a right of offset.

The Regional Center considers all amounts receivable under these contracts to be collectible, accordingly, no allowance for doubtful accounts exists.

Receivables - Intermediate Care Facility Providers

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day services and transportation services purchased by the Regional Center for consumers who reside in Intermediate Care Facilities (ICF). CMS agreed that the day services and related transportation services are part of ICF services; however, the federal rules allow for only one provider of ICF services. Accordingly, all the Medicaid funding for ICF residents must go through the applicable ICF provider. The Regional Center receives a 1.5% administrative fee based on the invoices submitted to the DDS for the administrative work to implement the state plan amendment (SPA 07-004).

The DDS has directed the Regional Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Regional Center is directed to reduce the amount of their regular state claim to the DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. The DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Regional Center's administrative fee, to the Regional Center within 30 days of receipt of funds from the State Controller's Office.

Equipment

Pursuant to the terms of the DDS contract, the Regional Center's equipment purchases become the property of the DDS and, accordingly, are charged as expense when incurred. The Regional Center is required to maintain memorandum records of equipment purchases and dispositions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Prepaid Expenses

Payments made to vendors for services that will benefit the Regional Center for periods beyond the current fiscal year are recorded as prepaid expenses.

Client Trust Funds

The Regional Center assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Regional Center. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

Revenue Concentration

State Regional Center contract revenue is revenue received from the state in accordance with the Act. Approximately 99% of revenue is derived from this source.

Revenue and Revenue Recognition

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor-imposed restrictions.

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specially restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue and Revenue Recognition (Continued)

A significant portion of the Regional Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Regional Center has incurred expenditures in compliance with specific contract or grant provisions.

Accrued Vacation

The Regional Center has accrued liabilities for leave benefits earned. Such liabilities are reimbursed under the DDS contract only when actually paid. The Regional Center has also recorded a receivable from the DDS for the accrued benefits to reflect the future reimbursement of such expenditures.

Deferred Rent

The Regional Center leases their office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the leases. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Regional Center has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

Defined Benefit Pension Plan

The Regional Center recognizes the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation in the statement of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge or credit to net assets (deficit).

Allocation of Expenses

The statement of functional expenses allocates expenses to the program and supporting service categories based on a direct-cost basis for purchase of services expenses, including salaries and related expenses. Operating expenses are allocated to supporting services, except for travel, which is allocated on a direct-cost basis.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Regional Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Regional Center accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Regional Center analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Regional Center's practice is to recognize interest and penalties related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2022.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Leases (Topic 840)*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities and functional expenses. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Regional Center is currently evaluating the impact of the adoption of the new standard on the financial statements.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which changes the impairment model for most financial instruments, including trade receivables, from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information, and reasonable and supportable forecasts. This ASU is effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the potential impact that the adoption of ASU 2016-13 will have on the financial statements.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent to year end, the Regional Center signed renewal contracts and amendments with the DDS allowing for funding of $779,768,896 for claim year 2022-2023 and $713,550,549 for claim year 2023-2024.

The Regional Center's management has evaluated subsequent events from the statement of financial position date through March 12, 2024, the date at which the financial statements were available to be issued for the year ended June 30, 2022.

NOTE 2 – Liquidity and Availability

Financial assets available for purchase of client service and operation expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial Assets:	
Cash and cash equivalents	$ 42,642,154
Receivables – State Regional Center contracts	11,690,055
Receivables – Intermediate Care Facility providers	4,244,574
	58,576,783
Less: Amount of net assets subject to restricted spending on a specific purpose	(1,273,920)
Total financial assets available within one year	$ 57,302,863

NOTE 2 – Liquidity and Availability (Continued)

The Regional Center, along with other regional centers, submits a monthly purchase of service expenditure projection to the DDS, beginning in December of each fiscal year. By February 1st of each year, the DDS allocates to all regional centers no less than one hundred percent (100%) of the enacted budget for operations and ninety-nine percent (99%) of the enacted budget for purchase of service. To do this, it may be necessary to amend the Regional Center's contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that the DDS determines that a regional center has insufficient funds to meet its contractual obligations, the DDS shall make its best efforts to secure additional funds and/or provide the Regional Center with regulatory and statutory relief. The contract with the DDS allows for adjustments to the Regional Center’s allocation and for the payment of claims up to two years after the close of each fiscal year.

The Regional Center also maintains a line of credit (see Note 5) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from the DDS.

NOTE 3 - Cash-Client Trust Funds

The Regional Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. These cash balances are segregated from the operating cash accounts of the Regional Center and are restricted for client support. Since the Regional Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of operating activity not reported in the statement of activities for the year ended June 30, 2022:

Support:	
Social Security and other client support received	$ 25,956,186
Disbursements:	
Residential care	$ 18,808,341
Money management	4,901,925
Other disbursements	2,245,920
	$ 25,956,186

NOTE 4 – Receivable - State Regional Center Contracts

The Regional Center's primary source of revenue is from the state of California. Subject to renewal, the Regional Center enters a five-year contract with the DDS that is subject to annual appropriations by the state. The Regional Center completed its third year of its five-year contract with the DDS that started fiscal year ended June 30, 2020. Revenue from the state is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to the DDS for payment. These claims are paid at the state's discretion either through a direct payment to the Regional Center or by offsetting the claim against the cash advances received by the Regional Center from the state.

As of June 30, 2022, the DDS had advanced the Regional Center $158,123,171 under the regional center contracts. For the financial statement presentation, to the extent there are claims receivable, these claims receivable have been offset by the advances from the DDS.

Contracts receivable	$ 169,813,226
Contract advances	(158,123,171)
Net contracts receivable	$ 11,690,055

NOTE 5 – Line of Credit

The Regional Center had a revolving line of credit agreement with a bank, which expired in September 2022, whereby it could borrow up to $50,000,000. Borrowings were secured by substantially all assets of the Regional Center with interest payable monthly at an interest rate of 3.25% at June 30, 2022. There were no amounts outstanding at June 30, 2022.

NOTE 6 – Defined Benefit Pension Plan

Effective July 1, 2004, the Regional Center adopted a defined benefit pension plan to provide retirement benefits for all employees. The benefits under the plan are funded in accordance with the insurance company contracts. The Regional Center is required to contribute an amount to the plan, after employee contributions to the retirement plan of 6.2%, which is necessary to purchase the contracts that will fund the retirement benefits.

NOTE 6 – Defined Benefit Pension Plan (Continued)

The following table sets forth the plan's funded status as of June 30, 2022:

Change in benefit obligation:	
Beginning of year	$ 212,922,859
Service cost	7,739,899
Interest cost	5,991,784
Actuarial gain	(58,371,883)
Benefits paid	(5,151,721)
End of year	163,130,938
Change in plan assets:	
Beginning of year	125,831,021
Actual return on plan assets	(19,626,597)
Employer contribution	8,622,788
Benefits paid	(5,151,721)
End of year	109,675,491
Net amount recognized in the statement of financial position	$ (53,455,447)

Net periodic postretirement benefit cost for the year ended June 30, 2022 consists of the following components:

Service cost	$ 7,739,899
Interest cost	5,991,784
Expected return on plan assets	(8,208,966)
Amortization of net loss	2,842,488
Net periodic benefit cost	$ 8,365,205

All previously unrecognized actuarial gains or losses are reflected in the statement of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets as of June 30, 2022, unamortized net loss of $21,636,149.

NOTE 6 – Defined Benefit Pension Plan (Continued)

The above net amounts recognized as a separate charge to net deficit do not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. The Regional Center has accrued a receivable from the DDS for the balance of the accrued benefit obligation of $31,819,298 as of June 30, 2022, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was $142,647,035 at June 30, 2022. There was no unamortized net transition obligation as of June 30, 2022.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of June 30, 2022 were as follows:

Discount rate	4.45%
Rate of compensation increase	3.00%

Weighted-average assumptions used to determine net periodic benefit cost as of June 30, 2022 were as follows:

Discount rate	4.45%
Expected long-term return on plan assets	6.50%
Rate of compensation increase	3.00%
Increase in IRS limits	3.00%

Weighted-average asset allocations at year-end were as follows:

Asset Category	Target Allocation
Equity securities	51%
Debt securities	31%
Insurance company general account	18%
	100%

NOTE 6 – Defined Benefit Pension Plan (Continued)

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. The pension plan assets are invested in a Group Annuity Contract through Minnesota Life Insurance Company. Investment responsibility for the assets is assigned to an Investment Policy Committee of the board of directors of the Regional Center. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a range of expected returns.

All investments are measured within the fair value hierarchy at level 1 where quoted prices are measured by observable active markets for identical assets.

The salary increase assumption is based on several factors which include, but are not limited to, employee productivity, promotions, the employer's expectations of future increases, historical trends, expected inflation, and survey results.

Estimated Future Benefit Payments

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid on a fiscal year basis:

Year Ending June 30,	
2023	$ 5,432,291
2024	$ 5,390,911
2025	$ 5,782,387
2026	$ 6,197,380
2027	$ 6,476,695
2028-2032	$ 36,918,246
	$ 66,197,910

Contributions

The Regional Center expects to contribute at least the minimum funding requirement to this plan in the fiscal year ending in 2023. In addition, it may contribute additional amounts not yet determined.

NOTE 7 – Commitments and Contingencies

Leases

The Regional Center leases facilities and certain equipment under operating leases expiring in various years through October 2032. These leases, which may be renewed for periods up to five years, generally require the lessee to pay all maintenance, insurance, and property taxes and contain a termination clause in the event the annual contract between the DDS and the Regional Center is not renewed. Several leases are subject to periodic adjustment based on price indices or cost increases.

Rental expense for facilities and equipment for the year ended June 30, 2022 was approximately $7,500,000.

Future minimum lease payments by the Regional Center for operating leases are as follows:

Year Ending June 30,	Total
2023	$ 4,441,497
2024	3,963,773
2025	3,613,672
2026	3,224,551
2027	3,321,101
Thereafter	15,502,205
	$ 34,066,799

Contingencies

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Regional Center may be liable to the state for reimbursement of such costs. In the opinion of the Regional Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2022, and for the year then ended.

NOTE 7 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The Regional Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. In the event that the operations of the Regional Center result in a deficit position at the end of any contract year, the DDS may reallocate surplus funds within the state of California system to supplement the Regional Center's funding. Should a system-wide deficit occur, the DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS's recommendations are subsequently reviewed by the governor and the State Legislature and a decision is made with regard to specific actions.

The Regional Center has elected to self-insure its unemployment insurance. The Regional Center is required to reimburse the state of California for benefits paid to its former employees. In addition, the Regional Center has elected to self-insure a portion of its employee benefits based on actual costs of dental services performed.

Legal Proceedings

The Regional Center is subject to various legal proceedings and claims arising in the ordinary course of operations. The Regional Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/ Pass-Through Grantor/ Grant Title	Federal Assistance Listing	Grant Identification Number	Grant Expenditures
U.S. Department of Education, Office of Special Education and Rehabilitative Services Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families with Disabilities (Part C)	84.181A	H181A210037	$ 3,651,167

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2022

NOTE A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of San Diego - Imperial Counties Developmental Services, Inc. (the Regional Center) under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Regional Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Regional Center.

NOTE B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – Indirect Cost Rate

The Regional Center has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Regional Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regional Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Regional Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Regional Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Regional Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
March 12, 2024

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited San Diego – Imperial Counties Developmental Services, Inc.'s (the Regional Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Regional Center's major federal programs for the year ended June 30, 2022. The Regional Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Regional Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2022.

Basis of Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Regional Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Regional Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Regional Center's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Regional Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Regional Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Regional Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Regional Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Regional Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-01. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Regional Center's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Regional Center's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-01 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Regional Center's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Regional Center's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
March 12, 2024

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

The auditors' report expresses an unmodified opinion on whether the financial statements of San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? – Yes

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? – No

Identification of major programs: Special Education – Grants for Infants and Families with Disabilities (Part C), CFDA #84.181A

Dollar threshold used to distinguish between Type A and Type B programs was $750,000.

Auditee qualified as low-risk auditee? – No

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

The following items are considered to be material weaknesses:

2022-01 Data Collection Form Submission

Condition:	The Regional Center has not submitted a Data Collection Form to the Federal Clearinghouse by the appropriate deadline.
Criteria:	OMB's Uniform Guidance requires the electronic submission of the Data Collection Form to the Federal Clearinghouse the earlier of (1) nine months after the Regional Center's fiscal year-end or (2) 30 days after receiving the auditors' report.
Effect:	The Regional Center is not in compliance with OMB's Uniform Guidance reporting requirement.
Cause:	Management personnel turnover lead to delays in completing the audit timely in order to file the data collection form within the deadline prescribed by OMB's Uniform Guidance. This is a repeat of fiscal year 2021's finding.
Response:	New personnel has been installed at the Regional Center to ensure the audit is conducted and completed timely to allow for the Data Collection Form by the nine month after fiscal year end deadline.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

2021-01 Data Collection Form Submission

Condition: The Regional Center has not submitted a Data Collection Form to the Federal Clearinghouse by the appropriate deadline.

Criteria: Uniform Guidance requires the electronic submission of the Data Collection Form to the Federal Clearinghouse the earlier of (1) nine months after the Regional Center's fiscal year-end or (2) 30 days after receiving the auditors' report.

Status: Due to management personnel changes, the finding was repeated in the current year as item 2022-01.